Inquiry into Rigging of Share Prices

1246. SHRI GURUDAS DAS GUPTA: Will the Minister of FINANCE be pleased to state:

(a) whether Government have ordered any inquiry into the allege rigging of share prices by some big industrial houses in the country; and

(b) if so, the details thereof?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (DR. DEBI PROSAD PAL): (a) and (b) Government have asked the Securities and Exchange Board of India (SEBI) to examine matters relating to alleged rigging of prices of shares of Reliance Polypropylene Limited and Reliance Polyethylene Limited as a prelude to the amalgamation with Reliance Industries Limited. The investigations by SEBI in the matter are in progress. SEBI at present is investigating around 45 cases relating to price rigging of big and small companies.

Implementation of Recommendations of Malhotra Committee

1247. SHRI PRAMOD MAHAJAN: SHRI VIREN J. SHAH:

Will the Minister of FINANCE be pleased to refer to the answer to Unstarred Question 80 given in the Rajya Sabha on February 14, 1995 and state:

(a) what progress has so far been made in implementation of recommendations of Malhotra Committee pertaining to disinvestment of Government equity in General Insurance Corporation (GIC) and Life Insurance Corporation of India (LIC);

(b) when the report was submitted and the details of the reccommendations and the decision taken so far on each of them; and

(c) if no decision has so far been taken, the reasons therefor and by which date the recommendations are likely to be implemented?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (DR. DEBI PROSAD PAL): (a) to (c) The Committee on Reforms in the Insurance Sector (Malhotra Committee) submitted its report to the Government on 7th January, 1994. Major recommendations made by the Committee are enclosed as statement *(See blow)*

The Government announced its intention to evolve a broad national consensus about the future direction and content of reforms in this Sector. Discussions were held with the managements and the unions of the insurance industry and with consumer interest groups, Chambers of Commerce and Industry and academics. The Report was also discussed in the consultative Committee attached to this Ministry. No consensus emerged in these discussions. Therefore, the Government could not take a decision on the recommendations of the Malhotra Committee.

However, as a first step towards reforms in the insurance sector the Government has set up an Insurance Regulatory Authority (IRA) under the overall administrative control of the Ministry of Finance.

Statement

Major Recommendations of the Committee on reforms in Insurance Sector.

(1) There is an urgent need to activate the insurance regulatory apparatus even in the present set-up of nationalised insurance sector. For this purpose, and as an interim measure, the office of Controller of Insurance should be restored its full functions under the insurance Act and it should be set up as a separate office as a matter of high priority. Meanwhile, steps should be initiated for the establishment of a strong and effective insurance regulatory authority in the form of a statutory autonomous board on the lines of SEBI.

(2) LIC which is a statutory corporation should be converted into a company registered under the Companies Act. The present capital of Rs. 5 crores of LIC contributed entirely by the Central Govt. should be raised to Rs. 200 crores with Government holding 50% thereof and the remainder being held by public at large reserving a suitable portion for LIC employees.

(3) The Central Office of the LIC should concentrate on policy formation, investment, product development, actuarial valuation, personnel policies, systems development and account of the Corporation. LIC's Zonal Offices should be delegated powers and should become Head Offices for insurance business and related matters in their respective jurisdictions. Zonal Managers should be made members of LIC Board. The process of reorganisation of the Central Office and Zonal Offices should be completed within a period of six months. The surplus staff at Central Office and Zonal Offices arising out of the restructuring should be re-deployed preferably with the Branches where the impact of growth of business is immediately felt.

(4) GIC should cease to be the holding company of the four subsidiary companies viz. New India Assurance Company, United India Insurance Co., National Insurance Company and the Oriental Insurance Company. These should function as independent companies on their own. GIC would function exclusively as a reinsurance company and as the Indian reinsurer under the Insurance Act.

(5) GIC's capital should be raised to Rs. 200 crores, 50% of which should be held by the Government and the remaining by the public at large reserving a suitable portion for GIC employees. To fully delink the subsidiary companies from GIC, Government should acquire the latter's total holding in each of them. The capital of each company should be raised to Rs. 100 crores, with Government holding 50% thereof and the remainder being held by public at large. A suitable proportion should be reserved for employees of the respective companies.

(6) The mandated investment of funds of the Life Insurance and General Insurance Companies should be reduced from the present levels of 75% and 70% to 50% and 35% respectively.

(7) The private sector should be allowed to enter insurance sector. No company should be permitted to transact both life and general insurance business. The number of new entrants should be controlled. The minimum paid-up capital for a new entrant should be Rs. 100 crores. The promoters holding could range from 26% to 40% of the paid-up capital. No person other than promoters can hold more than 1% of the equity. If and when entry of foreign insurance companies is permitted they should be required to float an Indian company for the purpose preferably as joint venture with Indian partner. Before the private sector is allowed to enter the insurance field, the Controller of Insurance should start functioning effectively.

(8) One co-operative society in each state might be permitted to transact life insurance business. Postal Life Insurance should be permitted to transact life insurance business in rural areas.

(9) Requests from the Co-operative institutions at the national and

state levels, to transact general insraunce business may be considered favourably subject to their satisfying the prescribed norms.

(10) New entrants in life insurance should be required to transact a certain minimum business in rural areas.

(11) Landless Agricultural Labourer Group Insurance (LALGI) and Integrated Rural Development Programme (IRDP) beneficiaries' schemes relating to Life; and, Personal Accident and Social Security (PASS) and Hut Insurance Schemes of general insurance are relief oriented welfare schemes and do not involve any element of insurance. These should be transferred to the concerned Government authorities.

(12) It would be inadvisable to abolish the tariff regime in general insurance at this stage. But the personal lines of covers should be taken off the tariff regime at the earliest. The area under tariff should be progressively reduced to promote competition and improve underwriting skills in general insurance. Market agreements should be discontinued.

(13) Tariff Advisory Committee (TAC) should be delinked from the GIC and should function as a separate statutory body under such supervision of the insurance regulatory authority as may be necessary without becoming a part thereof.

(14) The system of licensing of surveyors by the Controller of Insurance should be given up and the insurance companies should be free to assign the right surveyor to the right job.

(15) In order to popularise pension scheme, savings in pension funds should be given special tax relief distinct from the benefits allowed to relatively short term savings. Investment income from pension funds managed by life insurance companies should get tax exemption as is admissible to private pension funds managed by the employers.

(16) Comprehensive computerisation in LIC and the general insurance companies for handling business at all levels for developing effective management information system should be undertaken and completed within the next 12 to 18 months.

(17) To reduce litigation, the institution of ombudsman should be set up by the general insurance industry. Claims in personal lines upto Rs. 5 lac in each case may be considered at this forum.

(18) A Committee with appropriate membership may be set up for detailed scrutiny of the existing insurance laws, rules and regulations. for amendments and consolidation, probably in a new insurance law.

World Bank to Finance Cooperative Sector

1248. SHRI IQBAL SINGH: Will the Minister of FINANCE be pleased to state:

(a) whether World Bank is financing Cooperative Sector in the country;

(b) it so, the details thereof, State-wise;

(c) the amount being released for the purpose during the last three years?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (DR. DEBI PROSAD PAL): (a) and (b) There is only one on-going World Bank financed project for the Cooperative Sector in India at present. This is the National Dairy-II Project which is a central sector project under which the World Bank has